

# THE FARM & TRADE REPORT

Sep 17, 2015

#373-270

**COMMODITY BUYER & CONSULTANT FOR AG PRODUCTION, RISK MANAGEMENT & TRADE**



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**Quote of the Week:** Proverbs 19:20 "Listen to advice and accept instruction, and in the end you will be wise."



**GROWER NOTE:** We have interest in 2014/15 Calrose rice at **+** cwt over loan, please call us!

**SELLER INDICATION:** \$16.00 - \$50.00/cwt over loan Indication: ▲▲— UP/UP/FLAT

**BUYERS INDICATION:** \$14.00 - \$16.00/cwt over loan Indication: ▲▲— UP/UP/FLAT

**KNOWN MARKET TRADES:** \$15.00 - \$22.00/cwt over loan Indication: ▲▲— UP/UP/FLAT

\*Note the above price is based on information at print and may change depending on market conditions.

## **KEY MARKET HIGHLIGHTS: CA 2015 ACRES DOWN TOWARDS 350,000, TRENDING LOWER**

- California Snow Pack Worst in 500 Years – Snow Gone – Reservoirs Draining!
- China market will open to California with signing of the phyto-protocol on Sept 21... this is a great potential!
- USDA estimates acres will be 385,000, with industry thinking more like 350,000. Supply 28-33 million cwts
- California rice acres very short – smallest crop since 1991 – Prior to Japan MA markets opening.
- Australian 2016 crop in major question on very low water reserves... looks like 2010 levels or less today.
- Worldwide medium grain production down +1 MMT – California and Australia down +30% this year.
- AgriFin IS NOW PAYING **\$11/CWT OVER** LOAN UPFRONT; grower retains control of selling!



## **KEY UPDATES: SMALLER CALIFORNIA & AUSTRALIAN CROPS... CHINA FINALLY OPENS!**

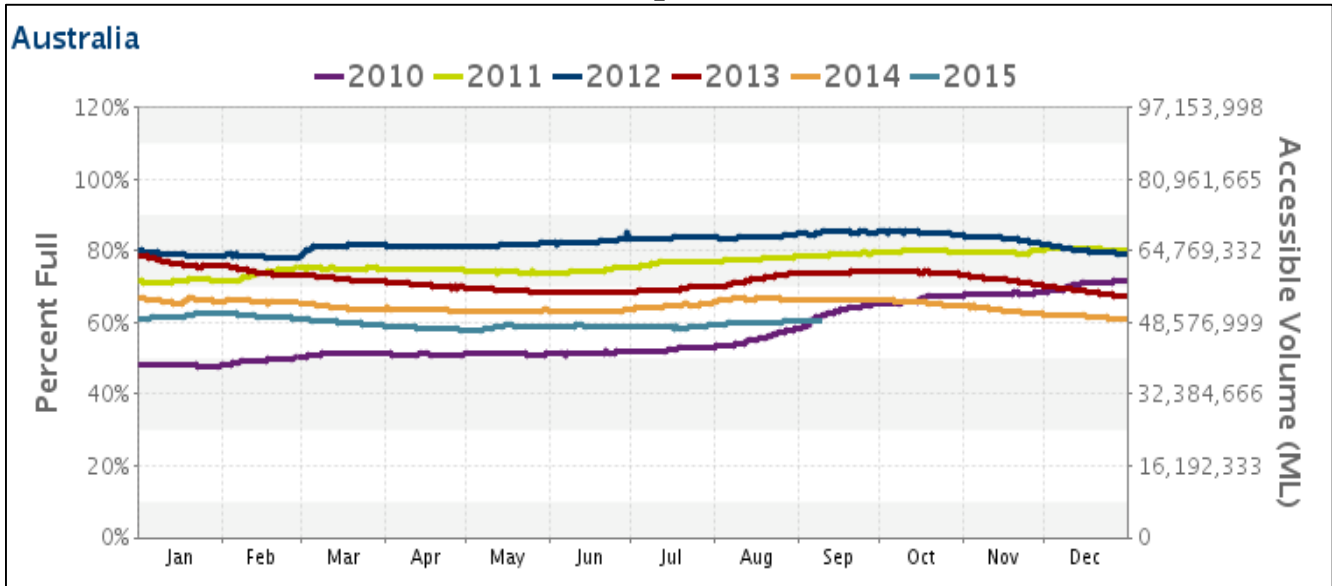
**California Update & China Protocol Update:** The California market continues to be in an interesting flux with shorter supplies in California and Australia. As recent articles have stated, California now has the worst snowpack in at least 500 years, which is greatly affecting the above and below ground water storage (see page 3 in the electronic version). USDA just put out its Sep certified acreage report, and it was along the same expected lines. Last year the Sep report showed 396,190 acres and 27,623 acres that were prevented (before sweet rice). The crop ended about 400,000 in total, including sweet rice. This year you saw 385,973 acres, but a massive increase in the preventative to 77,195 acres, but this does not include failed acres. This is a major indication that acres are more restricted than last year, which many in the market had already been saying. Looking forward, after several years of drought, California is really at a point where any additional dryness could lead to intense restrictions on water for agriculture and lowered future rice supplies. The supply we have is a great blessing but many likely will not have the supplies they would want in the coming period. One thing that is affecting the perception of supplies is the later Japan shipments, of which you have many that are greatly delayed in being loaded. Normally, you have all Japan shipped out by summer. This affects USDA carryover numbers as well, since they decide the year ends Aug 1 and so the USDA numbers are (even more than normal) less useful. To make things more interesting, we are happy to share that the China phytosanitary protocol has been approved and should be signed the week of Sep 21. This opens a key market to California, and it would take very little demand from China to completely change the California landscape. Support prices in China are towards \$18-\$19/cwt over loan to the grower as well. A historic change on many levels.

**Australian Update:** We do not remember a time when California and Australia were both going through drought conditions at the same time, but this is where we find ourselves today. In fact, you have total storage in Australia at a place that is worse than 2010 where only 220 TMT (about 5 million cwts of milled rice) were produced. To be fair, the rice area has not been hit the hardest yet, but this follows the prior drought scenario and Australia remembers the 7-8 year drought they just went through very keenly. Like California, the environmental lobby and higher per acre returning crops are affecting the situation. Taken together with China opening, we have an increased demand with lower supply situation brewing in the medium grain market, which is a recipe for some interesting market action in the short and longer term. Seems MG milling time is rather full for the next several months as well.

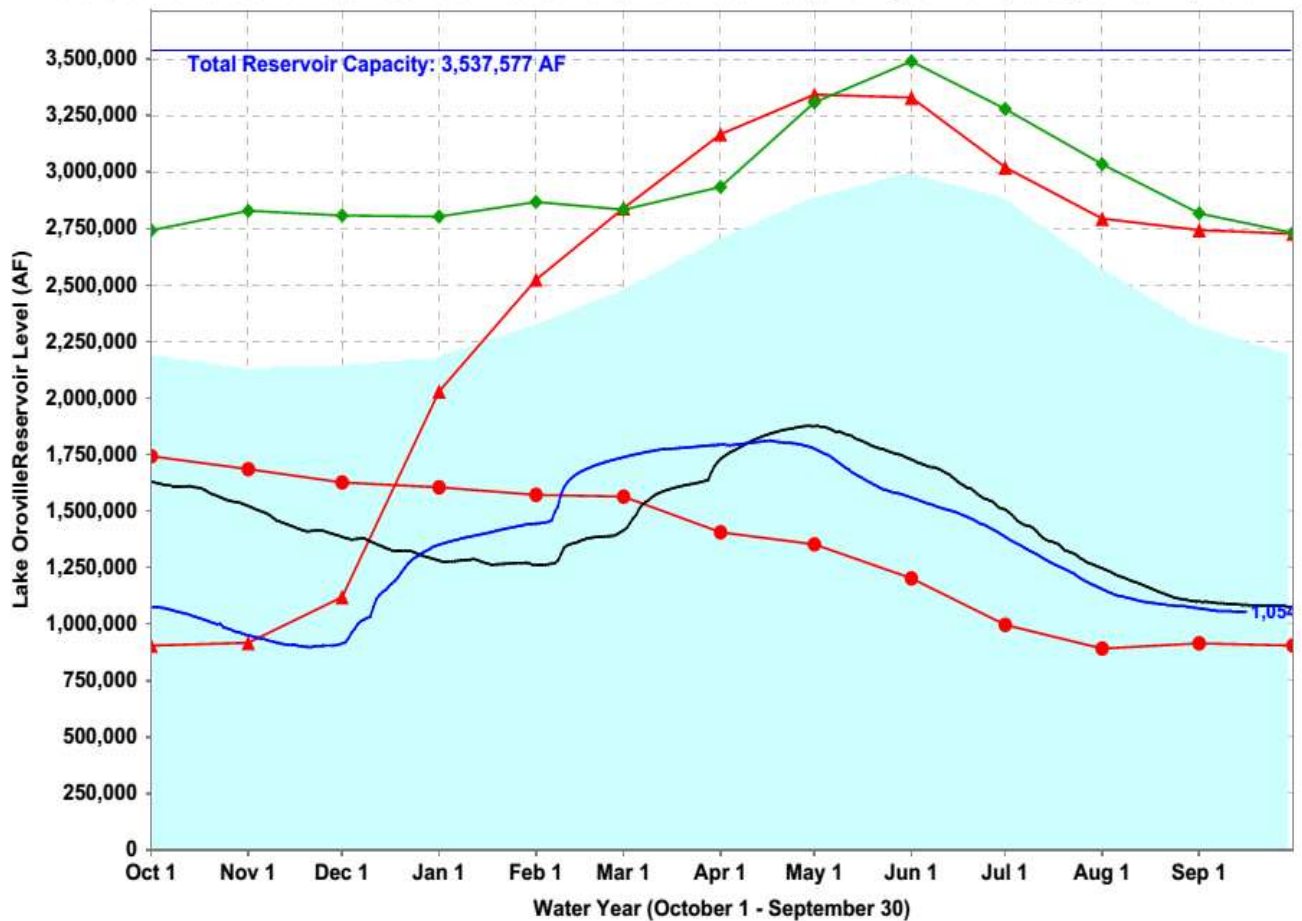
**El Nino Update:** The El Nino pattern is well in effect on many levels and is greatly limiting global supply. There is a major reduction in the Thai crop (largest global exporter), which is said to have the worst production in nearly two decades. This was added to the Philippines' NFA buying 750,000 tons last night, as El Nino has affected their supply situation such that massive purchases needed to be made. The issue related to El Nino and California is that there is virtually NO correlation between El Nino and a heavy northern California rain cycle. Historically El Nino represents a 50% chance of good or poor rain in the north. There have been rumors in the market, but as usual these rumors don't examine the data before they run around. In fact, Dr. Elwynn Taylor, one of the foremost weather experts, gave a speech at the TRT Americas conference a few weeks ago in Sacramento and stated that the heat bubble between Alaska, California and Hawaii was something he had never seen. If the bubble stays there, he expects wetness would go north rather than hit California. While only God knows the weather, there is no guarantee of significant rain and another year of drought would dramatically reduce rice production. The risk of supply is much greater than is currently getting noticed, but like many things we often take things for granted until it is too late. The summary of this is that you are seeing stock levels drop and the overall global market probably has seen its multi-year bottom. Many key leaders are saying that they expect a global rice / commodity market run towards Nov, and we see both technical along with fundamental pieces backing this up. Frankly, we feel you could see a rough Oct for stocks and this will probably also lead money into commodities as well. We surely live in interesting times.

**Attempting Pool Sign Up:** We see the same issue that goes back many years in California, where there is a push to get pool sign up and this has dramatic negative effect on the market. As we have long stated, this is probably the worst mechanism for returning value to the industry that one could devise, as it affects industry profitability and leads to irrational tender results where players sell unpriced inventory. It is not the people, many of whom have good intentions, but the system itself. One point is that it takes the majority of the short term price risk away from the buyer and so it is seductive even for them, but the longer term industry competitiveness issue becomes very real. This is what we are now seeing in that rice is becoming the crop of last resort, which is now affecting the quantity going to mills and warehouses. It is an unfortunate truth, but still a truth that the industry will need to adapt to on many levels.

## Australia – Water Storage and Supply 14 Sep, 2015



**Lake Oroville Levels: Various Past Water Years and Current Water Year, Ending At Midnight September 16, 2015**



■ Historical Average  
 — Total Reservoir Capacity  
 ● 1976-1977 (Driest)  
 ▲ 1977-1978  
 ◆ 1982-1983 (Wettest)  
 — 2013-2014  
— Current: 2014-2015



7<sup>th</sup>  
Annual  
TRT

THE RICE  TRADER

# World Rice Conference

Sheraton Imperial Hotel

Kuala Lumpur, Malaysia

28-30 October 2015

The 7th TRT World Rice Conference is back, in Kuala Lumpur for another three days of networking and rice market intelligence.

Register Today! For the largest gathering of rice industry trade professionals and the 7th edition of the "World's Best Rice 2015" contest. Three days of networking, intelligence and exchange that is aimed at getting the best out of the global rice trade. Join our who's who list of attendees and sponsors and invest in an event dedicated to trade.

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